

587

RETURN THIS FORM TO:

City	State	ZIP code
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Form 587 C2 (REV. 1994) **Side 1**

Instructions for Form 587

Nonresident Income Allocation Worksheet

References in these instructions are to the California Revenue and Taxation Code (R&TC).

General Information

A Purpose of Form

Use Form 587 to collect information to determine if withholding is required on payments to nonresidents. The vendor should complete, sign and return Form 587 to the withholding agent. The withholding agent may then rely on the certification made by the vendor to determine if withholding is required, provided the completed and signed Form 587 is accepted in good faith. The completed Form 587 should be retained by the withholding agent for their records and should be made available to the Franchise Tax Board (FTB) upon request.

Do not use Form 587 if:

- payment to a nonresident is for the purchase of goods;
- you sold California real estate. Use Form 590-RE, Nonresident Withholding Exemption Certificate for Real Estate Sales;
- the vendor is a resident of California. Use Form 590, Nonresident Withholding Exemption Certificate;
- the vendor is a corporation which has a permanent place of business in California or is qualified to do business in California. Use Form 590;
- the vendor is a partnership which has a permanent place of business in California. Use Form 590;
- the vendor is a limited liability company (LLC) which has a permanent place of business in California. Use Form 590;
- the vendor is a tax exempt or nonprofit organization. Use Form 590;
- the vendor is an irrevocable trust which has at least one California resident trustee. Use Form 590; or
- the payment is to an estate and the decedent was a California resident. Use Form 590.

B Law

R&TC Section 18662 and the related regulations, require withholding of income or franchise tax on certain payments made to nonresidents of this state. The withholding rate is seven percent unless a reduced rate or a waiver is approved by the FTB.

C When to File This Form

The withholding agent should request that the vendor complete, sign and return Form 587 when a contract is entered into or prior to payment being made to the vendor.

Form 587 will remain valid for the duration of the contract (or term of payments), provided there is no material change in the facts (as presented on Side 1).

The vendor, by signing Form 587, agrees to promptly notify the withholding agent of any changes in the facts. The withholding agent should evaluate the need for a new Form 587 when a change in facts occurs, such as a change of address, location of service or property, amount of payment, etc.

D Withholding Requirements

Payments made to nonresident vendors (including individuals, corporations, partnerships, LLCs, estates and trusts) are subject to withholding. However, no withholding is required if total payments of California source income to the vendor during the calendar year are \$1,500 or less.

Qualifying payments include, but are not limited to:

- payments for services performed in California;

- payments made to nonresidents for rents if the payments are made in the course of the withholding agent's business;
- payments to nonresidents for royalties paid for the right to use natural resources located in California;
- payments of prizes for contests entered in California;
- distributions of California source income to non-resident beneficiaries from an estate or trust; and
- other payments of California source income made to nonresidents.

Qualifying payments do not include payments:

- to a resident of California or to a corporation with a permanent place of business in California or to a corporation qualified to do business in California;
- for sale of goods;
- for income from intangible personal property such as interest and dividends unless the property has acquired a business situs in California;
- for services performed outside of California;
- to a vendor which is a tax exempt organization under either California or federal law;
- representing wages paid to employees. Wage withholding is administered by the California Employment Development Department (EDD). For more information contact your local EDD office; or
- to reimburse a vendor for expenses relating to services performed in California if the reimbursement is separately accounted for and not subject to federal Form 1099 reporting (corporate vendors, for purposes of this exception, should be treated as individual persons).

E Waivers and Reduced Rates

A nonresident vendor may request that income taxes be withheld at a lower rate or waived. A waiver of withholding will generally be granted when a vendor has a history of filing California returns and/or making estimated payments when due. To request a reduced rate or waiver, get Form 588, Nonresident Withholding Waiver Request (Non Real Estate). If a waiver or reduced rate authorization has been granted by the FTB, attach a copy of the FTB's authorization to this form.

F Requirement to File a California Tax Return

An executed certification that withholding is not required exempts the vendor from withholding but does not eliminate the requirement to file a California Tax Return and pay the tax due. For return filing requirements see the instructions for Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, Form 541, California Fiduciary Income Tax Return, Form 100, California Corporation Franchise or Income Tax Return or Form 100S, California S Corporation Franchise or Income Tax Return.

Specific Instructions

Part I - Withholding Agent's Information

Withholding agents should complete Part I before giving Form 587 to the vendors.

Part II - Nonresident Vendor's Information

The vendor should complete this section. Complete all information including the F.E.I.N., Secretary of State file number, social security number and vendor's entity type. Do not withhold if the vendor is a

tax exempt entity. The tax exempt box should be checked when the vendor is:

- an entity which is exempt from tax under either California or federal law such as a church, nonprofit organization, or pension plan;
- an insurance company; or
- a federal, state or local government agency.

Tax exempt vendors do not need to complete Part III and Part IV, but should complete Part V.

Part III - Payment Type

The nonresident vendor should check the appropriate box identifying the type of payment being received.

No withholding is required when vendors are residents, qualified corporations or have a permanent place of business in California.

Part IV - Income Allocation

Use the income allocation worksheet to identify payments that are subject to withholding. Only payments sourced in California are subject to withholding. Services performed in California are sourced in California. In the case of payments for services performed when part of the service is performed outside California, enter the amount paid for performing services in California in column (a). Enter the amount paid for performing the service while outside California in column (b). Enter the total amount paid for services in column (c).

If the trade, business or profession carried on in California is an integral part of a unitary business carried on within and outside California, the amounts included on line 1 through line 5 should be computed by applying the California apportionment percentage (determined in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act) to the payment amounts. For more information on apportionment, refer to California Schedule R, Apportionment and Allocation of Income.

Withholding agent. If the amount on line 6 is greater than \$1,500 then the withholding agent must withhold on all payments made to the vendor, until the entire amount on line 6 has been withheld upon. If circumstances change during the year (such as the total amounts of payments), which would change the amount on line 6, the vendor must submit a new Form 587 to the withholding agent reflecting those changes.

If a reduced rate was authorized by the FTB, compute the withholding required by applying the authorized rate to the amount on line 6.

Part V - Certification of Vendor

Enter your name, title and daytime telephone number. Sign and date the form and return it to the withholding agent.

For more information, contact:

**Franchise Tax Board
Withhold at Source Unit
P.O. Box 651
Sacramento, CA 95812-0651
(916) 845-4900
FAX: (916) 845-4831**